

ORIGINAL
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
UNS GAS, INC. FOR APPROVAL OF
ADJUSTMENT TO PURCHASED GAS
ADJUSTOR SURCHARGE.

) DOCKET NO. G-04204A-05-0596

)
) **RESPONSE TO**
) **COMMISSIONER MAYES'**
) **SEPTEMBER 21, 2005 LETTER**
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)

UNS Gas, Inc. ("UNS Gas" or the "Company"), through undersigned counsel, hereby responds to Commissioner Mayes' letter of September 21, 2005 (the "Letter") filed in connection with UNS Gas' surcharge adjustment request. UNS Gas responds to the Letter as follows:

I. THE ISSUES RAISED IN THE LETTER.

In response to rising natural gas prices and the resulting need to explore options for softening the impact of rising prices on customers, the Letter requests that Commission Staff and UNS Gas (1) examine the two-tiered or inverted residential rate structure proposed by Florida Power and Light ("FP&L") to curtail the impact of high natural gas costs on electricity rates in FP&L's service territory, and (2) analyze the possibility of a Commission order imposing a temporary moratorium on disconnections during the winter season.

With regard to the FP&L rate structure, the Letter specifically requests that Commission Staff and UNS Gas (i) examine the two-tiered rate; (ii) consider the merits of implementing such an approach in UNS Gas' service territory; and (iii) draft a proposed rate option that implements the tiered method.

With regard to the moratorium on winter disconnections, the Letter specifically requests that Commission Staff and UNS Gas examine (i) whether the Commission has the authority to institute a blanket prohibition on disconnections during the winter season, and (ii) whether the

1 Commission has the authority to require that UNS Gas implement a payment program for
2 individuals who may be struggling to pay their gas bills.

3 **II. TWO-TIERED FUEL ADJUSTMENT CLAUSE**

4 **A. The FP&L Fuel Adjustment Clause.**

5 UNS Gas examined the FP&L two-tiered rate structure by contacting FP&L for
6 background information and obtaining a copy of the testimony presented to the Florida Public
7 Service Commission by FP&L in support of the proposed rate. Through that examination, UNS
8 Gas determined the following:

- 9 • In or about September 2005, FP&L proposed an inverted rate structure for its
10 residential electric customers as part of its fuel cost recovery clause.
- 11 • The inverted rate structure was proposed to “send a more appropriate price signal to
12 its residential customers” and thereby promote conservation.
- 13 • FP&L’s inverted rate structure was designed to recognize that there is a certain
14 level of electric consumption required to maintain basic household services,
15 including lighting and refrigeration, and that usage beyond this base level is more
16 likely to be discretionary.
- 17 • FP&L’s first, basic services, tier carries a threshold of 1,000 kWh and is priced
18 about 15% lower than consumption beyond the 1,000 kWh threshold.
- 19 • FP&L designed the inverted residential rate to be consistent with the rate structure
20 previously approved for FP&L’s base rates.
- 21 • In addition, the inverted residential rate structure was intended to be revenue
22 neutral within that class so other rate classes would not be affected.

23 **B. Is the FP&L Two-Tiered Rate Transferable to UNS Gas Surcharge.**

24 The Letter raises the question of whether UNS Gas can use an inverted rate structure for its
25 Purchased Gas Adjustment (“PGA”) surcharge that is similar to the FP&L rate described above.
26 The answer to the question is “yes,” UNS Gas can design a two-tiered surcharge similar to the
27 FP&L model. However, the more important question is how effective a two-tiered surcharge will

1 be in promoting conservation and softening the impact of rising prices. Based upon its analysis,
2 UNS Gas believes there are at least two basic problems with attempting to utilize a two-tiered rate
3 structure for its PGA surcharge.

4 First, the geographic diversity of UNS Gas' service territory presents a challenge that
5 FP&L did not likely face in designing its two-tier rate structure. Selecting a threshold on the
6 lower end of the spectrum unfairly burdens customers in colder climates, while increasing the
7 threshold does little to cause customers in warmer climates to reduce discretionary usage.
8 Although this problem could be addressed by setting separate thresholds unique to each
9 geographic location, this would overly complicate UNS Gas' billing system and require
10 reprogramming the system at an additional cost to UNS Gas' customers. Further, it is unlikely
11 that the Company can implement a modification to its billing system in time for this winter season.

12 Second, the FP&L inverted rate includes a larger percentage of the customers' total energy
13 bill than UNS Gas' proposed PGA surcharge. Thus, implementing an inverted or two-tier
14 surcharge structure will have a limited effect on customer conservation or price mitigation. To
15 compensate, UNS Gas would be forced to design a surcharge with a price differential much
16 greater than the 15% used by FP&L. The problem with such a significant price differential is that
17 to have the intended impact of promoting conservation and mitigating rising prices, the first-tier
18 price would have to be set well below the actual cost of gas for this winter season. Setting a
19 below-cost first-tier price will only further compound the problem of the undercollected PGA
20 bank balance and there is no incentive to conserve at artificially low prices.

21 Given these facts, UNS Gas believes that adopting a two-tier surcharge has limited merit as
22 a means of softening the impact of rising gas prices and it may only serve to exacerbate the
23 problems associated with the Company's growing undercollected bank balance. UNS Gas has
24 sought to balance customer interests against its need to cover the rising cost of natural gas in
25 making its request to adjust the PGA surcharge to \$0.25 per therm effective November 1, 2005,
26 and then to \$0.17 per therm beginning November 1, 2006, until the bank balance is fully
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1 recovered. *See* UNS Gas Exceptions to the Recommended Order dated September 22, 2001. The
2 Company believes its proposal remains the best approach.

3 **C. UNS Gas Proposal for Two-Tiered Surcharge.**

4 At the same time, to the extent the Commission determines that a two-tiered structure is
5 necessary and appropriate, UNS Gas developed a two-tiered PGA surcharge option that seeks to
6 balance the interests of mitigating gas prices to low-use residential customers against the interest
7 of maintaining a revenue neutral surcharge that does not cause further increases to the under
8 collected bank balance.

9 Using its \$0.25 per therm surcharge proposal as a base, UNS Gas' two-tiered surcharge
10 option would impose a surcharge of \$0.23 cents per therm for the first 50 therms used each month,
11 and a surcharge of \$0.28 cents per therm for usage over the 50 therm threshold. In developing this
12 tiered option, UNS Gas determined that the average residential consumption in UNS Gas' service
13 territory is approximately 75 therms during the winter months.¹ The Company believes that a 50
14 therm threshold covers basic-needs consumption and some discretionary usage, thereby affording
15 low or fixed income customers a price break. At the same time, the proposal affords all customers
16 a reasonable opportunity to actively manage consumption and to achieve cost savings. UNS Gas
17 does not, however, support the concept of a waiver of a surcharge below a threshold because such
18 a plan provides no incentive for conservation and compounds the accumulating bank balance.

19 **II. WINTER MORATORIUM AND DEFERRED PAYMENTS.**

20 **A. Commission Authority to Order Moratorium.**

21 The posited question of whether the Commission has the authority to impose a blanket
22 prohibition on service terminations raises a number of issues. These issues include the proper
23 interpretation of the various provisions of the gas service termination rule, A.A.C. R14-2-
24 311.A.5.c, as well as Constitutional issues that may be raised by such a blanket prohibition. At
25 this point, however, UNS Gas believes that it is more productive for it to examine what it can and
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27 ¹ The average residential therm usage for November 2004 through April 2005 ranged from 95
therms average for Flagstaff/Show Low to a low of 59 therms average for Kingman.

1 will do as a company to address the concern over service termination in a year of ever rising
2 natural gas prices, rather than staking out a position on the Commission's authority on these
3 matters.

4 **B. Past Experience with Moratoriums.**

5 As this Commission is aware, UNS Gas voluntarily instituted a moratorium on service
6 terminations during the winter of 2003-2004. This moratorium was adopted to address similar
7 concerns over the impact of rising prices on low and fixed income customers. That moratorium,
8 however, had significant financial consequences. The amount of uncollectible customer accounts
9 increased by over \$100,000.00 in 2004, with much of this increase being attributable to the
10 moratorium. Moreover, the moratorium had associated costs that increased the losses associated
11 with the program.

12 **C. UNS Gas Moratorium Proposal.**

13 Based upon its past moratorium experience, UNS Gas proposes a temporary moratorium
14 on service terminations between November 2005 and March 2006 for the following residential
15 customers: (1) all qualified CARES participants; and (2) customers whose usage is below 50
16 therms per month. UNS Gas believes that this moratorium proposal addresses the concern over
17 service terminations for those customers who will be most adversely affected by rising gas prices.

18 **D. Payment Plans.**

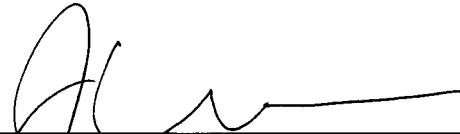
19 The Commission's Rules and Regulations authorize UNS Gas to offer a deferred payment
20 plan to qualifying residential customers and the Company has historically worked with its
21 customers to set up payment plans. See A.A.C. R14-2-310.I.1. UNS Gas will continue to offer a
22 deferred payment option to customers who are struggling to stay current on their gas bills to avert
23 service termination.

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Respectfully submitted this 13th day of October 2005

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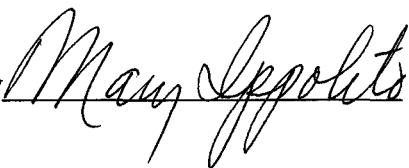
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